

Usha E Pitts 11/26/2008 11:26:08 AM From DB/Inbox: Usha

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UNCLAS SECTION 01 OF 03 UNVIE VIENNA 000587

SENSITIVE

FOR ISN/MNSA, IO/T; DOE FOR NA-24, NA-25, NA-21

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TAGS: [IAEA](#) [OTRA](#) [KNNP](#) [TRGY](#) [AORC](#) [UN](#) [PREL](#) [AS](#) [CA](#)
SUBJECT: IAEA PROGRAM SUPPORT COSTS - A BUDGET ISSUE THAT
FESTERS

11. (SBU) Summary: The IAEA has no clear policy on the application of Program Support Costs (PSCs) to extrabudgetary contributions. In recent months, however, the Secretariat has dabbled with implementing a universal fee of 7 percent. The U.S. and Australia have so far refused to pay the 7 percent, and one Australian contribution is in limbo as a result. Australia has proposed a paper, repeated below, which Geneva Group states are considering for presentation to the IAEA to advance the dialogue on this issue. The letter conforms to U.S. policy, supports the goals of the UN Transparency and Accountability Initiative (UNTAI), and has broad support from the Geneva Group. There is a risk, however, that forcing the issue into the public realm will lead to a messy repeat of past battles with the G-77. There are also concerns among some USG agencies and IAEA technical staff that PSCs are a thinly-veiled money grab by IAEA administrators that will divert money away from valuable technical programs. Despite these concerns, Post supports the broader goal of budgetary transparency and requests authority to convey the paper, together with the UK as Geneva Group co-chair, to Deputy Director General Waller by the Geneva Group, November 11 target (para 7). Text attached. End Summary.

12. (SBU) Program Support Costs (PSCs) are loosely defined as charges to cover the direct and indirect costs of implementing extrabudgetary programs. A growing consensus has emerged that PSCs should be harmonized across the UN system, and the topic has become a focus of the UN High-Level Committee on Management. In general, the UN and its technical agencies charge PSCs of 13 percent, while the UN humanitarian agencies charge 7 percent. The IAEA, on the other hand, has no clearly-defined policy on the application of PSCs, but began levying such expenses on a case-by-case basis beginning approximately one year ago (the charge ranges between 0, 3, 7 and 12 percent, depending on the donor and program). The U.S. has thus far declined to pay PSCs to the IAEA, partly in recognition of our significant extrabudgetary contributions, many of which include a cost-free expert (CFE). The U.S. also objects to the lack of any clearly-defined policy outlining how PSC rates are determined and levied.

13. (SBU) Emerging best practice, including UNTAI, stipulates that international organizations apply PSCs in a fair and transparent manner in order to accurately reflect the real costs of running programs. Attempts by Member States to implement such a policy at the IAEA have failed in the face of G-77 resistance (G-77 countries usually pay only 3 percent and do not wish to see any changes to the arrangement). A policy battle at the time of the June 2008 Board of Governors meeting ended with the Secretariat's agreement to conform to the status quo and continue applying PSC on a case-by-case basis.

Turbid Policy

14. (SBU) Following the June dust up, the IAEA Secretariat took steps to circumvent the deadlock among Member States by apparently universalizing PSCs at 7 percent. The 7 percent is charged retroactively to all projects submitted since July 1, 2008. In partial confirmation of these rumors, a high-ranking IAEA official told DCM that two middle income countries (Pakistan and one of the Baltic States) had been initially charged only 3 percent in PSCs, but that DG ElBaradei had turned down the projects until they agreed to the full 7 percent. The official (who spoke in confidence) did not indicate whether the policy would apply to the U.S., nor did he mention the U.S. refusal to pay PSCs on a recent, USD 1.5 million DOE donation to the Nuclear Security Fund. (Note: The Australians have also refused to pay PSCs. As a result, funds for an Australian project have been in limbo) sitting in an IAEA bank account) since early this summer. The Japanese, on the other hand, are resigned to paying PSCs, and the European Union recently accepted that 7 percent of its planned 5 million Euro contribution to the Nuclear Security Fund would go to PSCs. End Note.)

15. (SBU) Contrary to what we have heard from the Secretariat, other rumors indicate that a tiered structure remains in place whereby G-77 Members pay 3 percent for government

cost-sharing projects, OECD countries pay 7 percent, and contributions for junior professional officers (JPOs) are charged 12 percent. For example, a Mexican diplomat (and new participant in Geneva Group meetings) questioned the high rate charged on a Mexican JPO, given it amounted to a free laborer for the IAEA. Canada and the U.S. are in a similar position.

16. (SBU) In addition to the confusion over PSC rates, rumors allude to internal dissension at the IAEA, with some high-level officials pushing for universal PSCs, and others adhering to tiered structures. Even the DG's supposed support for universal PSCs has not been put to the test publicly. A number of Member States, notably Japan and Australia, are irritated by the obfuscation and have encouraged other Members to support them in pressuring for a policy that is fair, universal and transparent.

Request for Guidance -----

17. (SBU) Australia has recently drafted a paper requesting clarity on the PSC policy (sections of the document are lifted from a previous U.S. statement on the issue). In an UNVIE-hosted meeting of Geneva Group members November 5, there was near-consensus that the paper should go from the Geneva Group as a whole to Director General David Waller. Post requests authority to convey the paper, together with the UK as Geneva Group co-chair, to DDG Waller by the Geneva Group's November 11 target.

18. (SBU) Comment: Two issues affect the decision to co-sign: 1) If donor countries force the Secretariat to admit publicly to a universal PSC policy, it could lead to G-77 pushback and a potential showdown at the Board of Governors that merely repeats past struggles. In other words, we could win the battle of transparency, but lose the war of establishing a fair PSC policy if the DG ultimately caves in to G-77 pressure for a lower rate for some projects. 2) U.S. support for universal PSCs could increase the proportion of resources going to IAEA administration (PSCs on top of CFEs) and decrease the remainder available for priority programs in the areas of safety and non-proliferation. (Canada is in the same position and has stated off the record that universal PSCs would likely end their CFE program.) Skeptical observers within the USG and even the IAEA go so far as to suggest that the move to levy PSCs amounts to little more than a money grab by IAEA administrators that will siphon money away from the real work of the Agency. Recognizing these risks, post recommends signing the letter as a means to advancing our long term goal of transparency in international organizations. End Comment.

19. (U) Australian Draft Letter to DDG Waller

The Geneva Group supports in principle the application of Programme Support Costs (PSCs) to extrabudgetary contributions.

In June 2008, the Board debated a Secretariat document setting out a specific policy on the application of common PSCs to extrabudgetary contributions.

Several Geneva Group countries (as well as the EU as a group) indicated they still had some concerns about the precise modalities of how the charge would be applied, and requested the Secretariat to delay broader implementation.

Several members also emphasised that any such mechanism could only be applied in an equitable and non-discriminatory manner. In The Geneva Group's view, if a program support cost policy is to be implemented, it should be transparent and as consistent as possible.

We are concerned at indications the Secretariat has been moving to make acceptance of extrabudgetary contributions received after 1 July 2008 contingent on the levying of a 7 per cent PSC, despite its statement at the June Board that "it would continue to apply Programme Support Costs on extrabudgetary contributions on a case-by-case basis, as is currently the practice."

We note that there are a number of issues to be clarified regarding how the Agency intends to implement the policy, including:

- effects on extrabudgetary activities for which funding for management and administration is already available;
- confirmation that the introduction of a common PSC policy will be cost-neutral, e.g. that it would not lead to an augmentation of MTBF (budget and finance) staff levels simply to administer the PSC mechanism itself;
- advice of the quantity of funds already raised through the levying of PSCs, the purpose to which these funds have been put (or will be put), and the point at which such funds may begin effectively subsidising - or creating savings in - the Regular Budget.

We also note that some Member States continue to suggest a discriminatory approach whereby certain lines of extrabudgetary funding should be exempted from the common PSC policy.

Our understanding of the Secretariat's reference at the June Board to "a case-by-case basis, as is currently the practice" was based on paragraph 3 of its "Policy on the Application of Programme Support Costs", according to which PSCs have been applied in the case of a few voluntary contributions in agreement with donors, or otherwise arranged through the provision of cost-free experts."

Based on discussion at the June Board, it was our expectation that streams of extrabudgetary funding previously subject to PSCs would continue to have PSCs applied, and that PSCs could be charged on new streams of extrabudgetary funding subject to the agreement of the donor (n.b. Rule 108.02 of the Agency's Financial Rules provides that the Agency may charge PSCs only with the agreement of the contributor).

We also understood that the Secretariat "could even find itself in the position of having to decline extrabudgetary funding" if administrative resources were not available in specific cases.

However, until such time as Member States can see an official, transparent and equitable PSC policy applicable across the Agency, the Secretariat should not make its acceptance of new extrabudgetary contributions contingent on donor agreement to PSCs.

In this context, we note that several donor agencies have already approved certain extrabudgetary contributions on the understanding that the entirety of the contribution would be used for direct project costs such that the retrospective application of PSCs would require administratively burdensome re-approval of the contribution.

The Geneva Group is prepared to continue working with the Secretariat toward a fair, equitable and transparent common PSC policy.
SCHULTE